BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the Matter of	)	
	)	
Amendment of Rules and	)	
Policies Governing Pole	)	CS Docket No. 97-98
Attachments	)	

COMMENTS OF SBC COMMUNICATIONS INC.

JAMES D. ELLIS
ROBERT M. LYNCH
DAVID F. BROWN
175 E. Houston, Room 1254
San Antonio, Texas 78205

LORI L. ORTENSTONE
525 B Street, Room 900
San Diego, California 92101

MARGARET E. GARBER
1401 I Street N.W., Suite 1100
Washington, D.C. 20005

ATTORNEYS FOR SBC
COMMUNICATIONS INC.

DURWARD D. DUPRE
MARY W. MARKS
JONATHAN W. ROYSTON
One Bell Center, Room 3520
St. Louis, Missouri 63101
(314) 235-2507

ATTORNEYS FOR SOUTHWESTERN BELL
TELEPHONE COMPANY

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Summary*

The Commission should reexamine its pole attachment rules in light of developments over the last ten years. A number of refinements to the formula for maximum pole and conduit attachment rates need to be adopted, including changes needed to assure that utilities receive adequate compensation for use of their property.

The Commission should resolve the problem of artificially low pole attachment rates caused by the large negative net salvage reflected in the depreciation reserve for poles. Preferably, this problem should be resolved by using primarily gross book costs to calculate carrying charges. Specifically, SBC recommends that the administrative, maintenance, and depreciation expenses be computed using gross book costs; while the tax and return components continue to be based on net book costs. This gross book method should be used across the board whenever the Commission's pole attachment rules are applied to resolve a dispute.

In the alternative, if the Commission declines to adopt this method based primarily on gross book costs, then the Commission should allow utilities to eliminate the net salvage amount from the depreciation reserve in all jurisdictions. This correction of the distorting effect of the negative net salvage should not be

* The abbreviations used in this Summary are defined in the body of these Comments.

limited to those jurisdictions where net pole cost has become negative. The magnitude of the problem is considerable in all jurisdictions and a remedy in only those cases where net book costs have become negative is not justifiable. In particular, a limited remedy cannot be justified, as suggested in the NPRM, by speculation that a hypothetical over recovery of maintenance on a certain vintage of poles will offset the under recovery on the entire inventory of average poles. Among other flaws in this reasoning, there is no possibility of over recovery of maintenance expense. In addition, this approach would depart drastically from the use of average figures to calculate rates.

The adjustment to the depreciation reserve is only necessary for purposes of calculating the ongoing expenses associated with pole ownership, i.e., the administrative, maintenance and depreciation expenses. The tax and return components should continue to be calculated using the unadjusted depreciation reserve.

For accumulated deferred income taxes("ADT"), the Commission should use actual pole-specific figures instead of using a method of prorating the total plant figure. Allocating the total plant figure based on the ratio of pole to total investment yields a completely inaccurate result due to the radical difference between pole and total plant ADT.

SBC concurs with the proposed translation of the formula from Part 31 to Part 32 accounts. Further, to simplify negotiations and resolution of pole attachment disputes, the

Commission should allow utilities the option of using 11.25% as the rate of return in all states, rather than only in those states which no longer prescribe a rate of return.

The Commission should adopt a simple method of calculating maximum rates for conduit use. Given the complexity and cost of measuring the actual space occupied by conduit attachments, a half-duct convention presents the most practical option. Under a half-duct convention, one determines usable space by calculating the number of ducts in the average conduit run based on the utility's property records and then subtracting ducts reserved for emergency, maintenance and municipal purposes. The condition of older, damaged conduit warrants an additional adjustment to reflect that many ducts are not in a usable condition.

The Commission should also provide guidelines for applying the half-duct convention to real-world conditions such as the widespread use of inner duct. When inner duct is used, the half duct convention means that there are two inner ducts on the average in each duct and the rate applicable to each inner duct is the half-duct rate. In contrast, when inner duct is not used, a bare cable in a duct renders that duct unusable by others as a practical matter and a full-duct rate would apply.

The pole height and usable space presumptions should generally remain unchanged. However, circumstances that have changed since the Commission last considered the 40-inch safety clearance indicate that it should be considered non-usable space.

The Electric Utilities have not provided sufficient

justification for an increase in the average pole height. Likewise, SBC opposes elimination of shorter poles (30 feet or less) from the data used to calculate pole attachment rates because many of these poles are used for third party attachments, especially in the case of poles that are not jointly used.

While the Commission should focus on these refinements to the pole attachment rate calculations, it should also keep in mind that these rules should only be used as a last resort in the event the parties are unable to agree upon a rate. Therefore, the Commission should encourage private negotiation of rates and respect agreements reached between utilities and attachers.

Further, to minimize the burden of unnecessary complaints, the Commission should adopt a presumption that rates are reasonable when the attacher has been paying the same or a higher rate for a specified period, such as twelve months, or when a complaint does not involve a minimum threshold amount or quantity of attachments.

Although these refinements to the pole attachment rules make significant improvements in the accuracy of the calculations and the adaptation of the rules to the conduit environment, other issues remain to be addressed such as the inadequacy of compensation due to the fact that utilities are not allowed to reserve spare capacity for their own planned utility purposes and the method of allocating pole and conduit modification costs. SBC urges the Commission to minimize the burden of its regulations in cleaning up loose ends such as these.

Before the
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In the Matter of	)	
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Amendment of Rules and Policies Governing Pole Attachments	)	CS Docket No. 97-98
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COMMENTS OF SBC COMMUNICATIONS INC.[1]

A number of changes have occurred since the Commission last reviewed its pole attachment rules ten years ago. For example, carriers switched from a Part 31 to a Part 32 accounting system. Also, the Commission gained more experience in handling complaints under the Pole Attachment Act of 1978, including, for the first time, complaints concerning conduit occupancy rates. The most significant change in the last decade was the amendment of the Pole Attachment Act to make it applicable to attachments by telecommunications carriers. Given the expansion of the potential universe of attachers and the upcoming complications introduced by the Telecommunications Act of 1996[2] (the "1996 Act"), SBC agrees that it is time for a re-examination of the Commission's formula for the maximum pole attachment rate in

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[1] SBC Communications Inc. ("SBC") files these Comments on behalf of its subsidiaries, including Southwestern Bell Telephone Company ("SWBT"), Pacific Bell and Nevada Bell, pursuant to the Commission's Notice of Proposed Rulemaking in the above-captioned proceeding released on March 14, 1997.

[2] Telecommunications Act of 1996, Pub. L. No. 104-110 Stat. 56, codified at 47 U.S.C. §§ 151 *et seq.* ("1996 Act").

light of a variety of developments noted in the Notice of Proposed Rulemaking ("NPRM").[3] The timing is especially appropriate because the Commission needs to make the necessary corrections to the existing formula before it adopts the additional alterations required by Section 224(e) for the future telecommunications carrier formula that will begin to take effect in the year 2001.[4]

I. THE COMMISSION SHOULD ADOPT A GROSS BOOK METHOD TO CALCULATE POLE ATTACHMENT RATES.

A. The Problem

The Commission seeks comments on a number of issues raised by SWBT's Petition for Clarification, or in the Alternative, a Waiver ("SWBT's Petition") filed on August 26, 1994. The Commission seeks comments on the scope of the problem described in SWBT's Petition and on two potential solutions.[5] Before addressing the Commission's specific questions, SWBT wishes to describe the problem presented by a large negative future net salvage.

SWBT recognized the problem described in its Petition when the net pole cost in Oklahoma became a negative figure. This occurred because the accumulated depreciation exceeded the gross pole investment. However, the problem is not limited to those

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[3] FCC 97-94, adopted and released March 14, 1992.

[4] That new formula must be adopted by February 1998 and will be effective in 2001.

[5] NPRM, ¶¶ 21-29.

states where the net pole cost has become negative. The accumulated depreciation includes two components: one for the recovery of original investment, the other for the recovery of the cost of removal of the pole at the end of its useful life, net of any salvage value. The latter is known as "future net salvage" ("FNS"). The net pole cost became negative primarily due to the high cost of removal of poles reflected in the accumulated depreciation.

In Oklahoma, SWBT's net pole cost became negative long before SWBT has fully recovered its original investment. So long as SWBT's original investment has not been fully recovered through the application of Commission-prescribed depreciation rates, SWBT should continue to recover pole attachment carrying charges based on a positive net pole cost.[6] Otherwise, the logic of the pole attachment formula is distorted by a negative net pole cost. For example, the pole-specific percentage carrying charges of the 1993 calculation of rates were negative, while those based on total plant were positive. As a result, in the last step of the formula, a negative net pole cost was multiplied by a negative percentage carrying charge, as follows:

-$1.69	*	-716.11%	*	.074	=	$0.90
(net pole cost)		(carrying charges)		(share of usable space)		max. rate

The result is a very low rate that is positive only because the

[6] Of course, as the NPRM acknowledges, certain carrying charges will continue whether or not original investment is fully recovered. NPRM, ¶ 26.

last step requires the sum of all of the carrying charges to be multiplied by the net pole cost. It is illogical that the determining factor as to whether a particular carrying charge is negative or positive is whether it is based on total plant or pole-specific figures. The depreciation and maintenance carrying charges are positive while the administrative, tax and rate of return carrying charges are negative.[7] The adverse consequences of a deflated net pole cost are focused on the carrying charges that recover a negative dollar amount. However, because it may be appropriate for the tax and return components to be negative or low, as discussed below, the principal component that needs to be corrected is the administrative carrying charge.[8]

The result could be even more illogical in other cases. For example, if, as the net pole cost turns slightly negative, it comes very close to zero, the resulting carrying charge would be very small. But later, as the net pole cost becomes a larger negative figure, some of the negative carrying charges would increase again to a larger amount. The distortion caused by the

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[7] While the percentage carrying charges for depreciation and maintenance are negative, they result in a positive dollar recovery when multiplied by the negative net pole cost. The 1993 carrying charge percentages in Oklahoma were as follows: Depreciation, -634%; maintenance, -110%; administrative, 10%; tax, 6.75%; rate of return, 11.98%.

[8] As noted in the NPRM, ¶26, one would expect certain carrying charges, such as administrative, maintenance and depreciation, to be positive even after net pole cost becomes negative. Naturally, under such circumstances, the utility will continue to incur expenses such as those relating to administration and maintenance of poles.

large negative net salvage reflected in the accumulated depreciation is most obvious after the net pole cost becomes negative. However, this distorting effect occurs even when net pole cost is still positive because the net investment base is artificially understated for purposes of calculating the ongoing expenses associated with pole ownership.

In computing the net pole cost, the formula subtracts from gross pole investment an accumulated depreciation that includes both a recovery of original investment and a recovery of cost of removal (net of salvage). Given that the gross pole investment only includes the original cost of the poles, it is obvious that subtracting both components from the gross pole investment causes the net pole cost to be far less than the actual remaining investment in poles.[9] As of 1993, SWBT had only recovered 41% of its original investment in poles in Oklahoma, and yet, the net pole cost was already negative. Likewise, in other states, the net pole cost has been reduced significantly by the cost of removal.

It is illogical for the pole attachment rate, and the recovery of expenses it includes, to decline as a result of an

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[9] This is analogous to the problem with the pre-1987 version of the administrative carrying charge component. The "numerator . . . contained only cable-related accounts while the denominator reflected total electric plan investment." Amendment of Rules and Policies Governing the Attachment of Cable Television Hardware to Utility Poles, CC Docket No. 86-212, Notice of Proposed Rulemaking, 104 F.C.C. 2d 412, 420 ¶15 (1986). In this case, what is being subtracted contains a type of cost that is not included in the figure from which it is being subtracted.

increase in the current and anticipated costs of pole removals. In particular, the pole attachment administrative carrying charge should be based on an accurate figure for the remaining investment in poles, free from the distorting effect of the cost of removal. Otherwise, the pole owner is not being allowed to recover a rate that truly represents its fully allocated cost.[10]

B. The Preferred Solution

The NPRM seeks comment on an appropriate modification of the pole attachment formula to remedy this problem.[11] While, in its Petition, SWBT originally sought to correct the problem by eliminating the net salvage amount from the accumulated depreciation, since then SWBT has concluded that it would be preferable to compute the rates using gross book costs (except for the return and tax elements). One reason the gross book method is better is that it avoids the relatively difficult task of determining the net salvage amount to be extracted from the accumulated depreciation. As explained in the Declaration of John Lube attached as Exhibit "A" to these Comments, the net salvage component can be identified using a theoretical reserve calculation. The formula used for this calculation is contained in the Commission's own Depreciation Study Guide.[12] However, it

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[10] Alabama Power Co. v. FCC, 773 F.2d 362, 364 (D.C. Cir. 1985).

[11] NPRM, ¶ 22.

[12] See Exhibit "A", ¶¶3.01-3.10.

does require calculations using figures from internal company reports and depreciation studies. In contrast, a gross book method would not require accumulated depreciation to be used at all in calculating the continuing expenses of pole ownership. A gross book method would avoid future potential disputes over the accuracy of the theoretical reserve calculation. While this calculation can be done accurately, the fewer the steps in the calculation, the less likely that questions will arise. The Commission has also expressed a preference for using publicly available state- or company-wide figures that a cable operator could verify independently.[13]

A more important reason for using a gross book method is that it is a more logical basis for determining expenses such as maintenance and administration. There is no correlation between the depreciation reserve and the amount of administrative or maintenance expenses. It would be illogical to assume that as the reserve grows, thereby reducing net pole cost, there will be a reduction in administrative or maintenance expenses. If anything, as the average age of the pole plant increases, one would expect such expenses to increase. Thus, it is preferable not to use net investment because it is a poor indicator of the level of expenses incurred. Additionally, where the pole reserve

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[13] See, e.g., Amendment of Rules and Policies Governing the Attachment of Cable Television Hardware to Utility Poles, CC Docket No. 86-212, 2 FCC Rcd 4387 ¶¶52, 85 (1987)("1987 Report and Order").

is increasing more rapidly than the reserve of other types of plant, the administrative carrying charge for poles is distorted.

The NPRM seeks comment on its assumption that the gross book method would produce a slightly higher rate than a net book method.[14] This is not necessarily an accurate assumption. In fact, SBC finds the opposite result using its telephone operating company data. While the results will depend upon the accounting data for each utility, SWBT's rates would be lower if SWBT used a gross book method instead of using a net book method in which the net salvage has been removed. Of course, compared to the artificially low rate produced by the unadjusted net book method, a rate calculated using the gross book method would be higher. Because the gross book method is not affected by negative net salvage, the gross book method should be compared to a net book method that has been corrected to eliminate the illogical effect of negative net salvage.

A comparison of rates under these two methods using SWBT's accounting data is attached as Exhibit "B".[15] In each of the five

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[14] NPRM, ¶29.

[15] The NPRM states that the basis for the Commission's assumption that the gross book method would yield a higher rate is "the way administrative costs are allocated." NPRM, ¶ 29. The NPRM does not adequately explain the basis for this assumption, and thus, SBC is unable to comment on the Commission's reasoning. If there is any difference in administrative costs of poles, SBC expects them to be higher than the average administrative expenses attributable to operations due to added expense of complying with the detailed guidelines and procedures imposed by the Commission's ruling in CC Docket No. 96-98. This is especially true if one considers the level of

states shown in Exhibit "B", the rate determined by the gross book method is lower than the rate determined by the adjusted net book method. This comparison of rates shows that the primary component being corrected is the administrative carrying charge. The maintenance, tax and return elements are exactly the same under all three methods and depreciation is virtually the same. In contrast, the correction to the administrative element is considerable when the effect of the net salvage is removed by either adjusting the net pole cost or converting to a gross book method.

The figures for the administrative component in Exhibit "B" also illustrate the seriousness of the problem. In Oklahoma and Kansas, where net pole cost has become negative, attachers receive a credit of 24¢ and 4¢, respectively, for administrative expenses. Thus, not only is the utility not recovering any administrative expense, but the administrative expense is offsetting the positive recovery in other components. In other words, if one ignored all components other than the administrative carrying charge, then the utility would be paying the attacher to use space on the pole. This result reveals the design flaw in the formula because there will undoubtedly continue to be administrative time, resources and expenses incurred for these poles. In the other states, where net pole

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administrative expense will be larger relative to the low amount of investment compared to other network assets.

cost is still positive, the recovery of administrative costs is still significantly understated. For example, in Missouri, only 24¢ in administrative charges are recovered per pole each year. Conversion to a gross book method corrects this problem and assures that the utility will receive more adequate recovery of administrative expenses.

II. IF A NET BOOK METHOD IS USED, THE NET SALVAGE AMOUNT SHOULD BE ELIMINATED FROM ACCUMULATED DEPRECIATION IN ALL STATES.

The NPRM seeks comment on the scope of the problem. In doing so, however, the NPRM fails to propose a remedy that would cover all jurisdictions. Thus, the NPRM appears to assume that the problem would only be severe when net pole cost has become negative. For example, the NPRM asks for "the number of jurisdictions where accumulated depreciation balances currently exceed the gross pole investment."[16] While this inquiry is pertinent to a determination of the scope of the problem experienced by carriers where net pole cost has become negative, it is also necessary to observe the degree of impact on pole attachment rates where net pole cost is still positive.[17] Even the NPRM acknowledges that "[w]hen net salvage is factored into depreciation rates as a negative amount, the net asset value to

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[16] NPRM, ¶ 21.

[17] Of course, SWBT assumes the NPRM is asking for the number of jurisdictions in which each carrier's net pole cost has become negative. That is, the fact that it is negative for one carrier in a state does not mean it is negative for other carriers in the same state.

which the cost factors are applied in the formula may become inordinately low."[18]

SWBT's net pole cost is already negative in Oklahoma and Kansas.[19] Based on the history of the pole account, SWBT projects that net pole cost will become negative in SWBT's remaining three states within the next three years. The fact that all of SWBT's states are becoming negative demonstrates the severity of the problem.[20] Further, this problem begins long before a state has become negative because the maximum pole attachment rates are substantially lower than they would have been absent the distorting effect of the large negative future net salvage.

The magnitude of the impact in both positive and negative states can be shown by comparing the aggregate amount of net salvage accumulated in the depreciation reserve. For example, the following are the aggregate amounts of net salvage accumulated in the depreciation reserve in Arkansas, Missouri and Oklahoma as of the end of each of the last five years:

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[18] Id. n.59 (emphasis added).

[19] It became negative in Oklahoma in 1992 and in Kansas in 1994.

[20] Pacific Bell and Nevada Bell's net pole costs have not become negative, and SBC does not anticipate that they will, because both companies give the poles to third parties for reuse. It is uncertain, however, how long these arrangements will continue.

Year	Arkansas	Missouri	Oklahoma
1995	$9,247,000	$30,640,000	$22,670,000
1994	9,578,000	26,904,000	20,249,000
1993	9,342,000	26,025,000	19,283,000
1992	9,004,000	25,298,000	18,796,000
1991	9,091,000	22,475,000	17,731,000

The net salvage portion of the accumulated depreciation in all three states is very large. As these figures illustrate, the adverse impact of the millions of dollars of accumulated net salvage is significant even in those states where net pole cost is still positive. This impact can also be seen by comparing the accumulated net salvage per pole:

Year	Arkansas	Missouri	Oklahoma
1995	$81	$96	$106
1994	80	82	93
⋮	⋮	⋮	⋮
1991	69	66	78

The order of magnitude of the impact is the same in all three states. However, the amount of original investment in Arkansas and Missouri, combined with other factors, has been sufficient to keep the net pole cost from becoming negative. As a result of the large net salvage per pole, pole attachment rates, especially the administrative carrying charges, are driven down by a significant margin in Missouri and Arkansas just as they are in Oklahoma.

While acknowledging the distorting effect of negative net salvage, the NPRM proposes that "the adjustment may properly be applied only after the net asset balance for poles has become

negative."[21] The NPRM also states this proposal as follows: the accumulated depreciation should "be left unadjusted until full recovery has occurred."[22] As explained above, SWBT's net pole cost has become negative long before SWBT will fully recover its original investment. Therefore, the NPRM mistakenly equates a negative net pole cost with the full recovery of the investment. The proof that SWBT has not fully recovered its original investment in poles in the two states where net pole cost is negative, is that, in those states, SWBT is continuing to depreciate its poles and to recover depreciation under the Commission's depreciation policies. In fact, as of December 1993, the percentage of original pole investment recovered by SWBT in each of its five states is as follows:

Arkansas	37%
Kansas	50%
Missouri	32%
Oklahoma	41%
Texas	28%

SWBT has not even come close to full recovery, and yet, pole attachment rates are unjustifiably low and either negative or approaching a negative amount as a result of a large net salvage. If the Commission continues to use a net book method, the Commission needs to use a figure for net pole investment that

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[21] NPRM, ¶ 24.

[22] Id., ¶ 25.

more accurately states the actual amount of remaining investment. Elimination of the net salvage yields such an accurate figure.

The NPRM only provides one reason for limiting the proposed adjustment to those states where a carrier's net pole cost has become negative.[23] The NPRM suggests that the under recovery caused by negative net salvage may be offset by "over recovery in the early phase of the pole's life. A new pole, for instance, should have very little maintenance requirements. Yet, in the early phase of its life, the full undepreciated cost is included in the formula. Consequently, an excess provision for maintenance is included in the rate for the new pole."[24]

Contrary to this reasoning, there is no possibility of over recovery. The maintenance carrying charge is determined using actual maintenance expenses charged to poles (Account 6411). The formula for the maintenance carrying charge percentage is the following:

$$\text{Maintenance expense (\%)} = \frac{\text{Account 6411}}{\text{Net Pole Investment}}$$

The amount of maintenance recoverable from poles is determined by multiplying the maintenance expense percentage by the Net Pole Investment. The result is that the amount of maintenance expense allocated to each pole is the actual expense in Account 6411 divided by the number of poles. The amount per attachment is

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[23] NPRM, ¶ 25 & nn. 59 & 61.

[24] Id. ¶ 25.

then determined by dividing the amount per pole by 13.5. Consequently, whether or not an adjusted Net Pole Investment is used to calculate the maintenance carrying charge, the result is the same: actual expenses are allocated to all poles.

If what the NPRM means is that these actual expenses are over allocated to new poles and under allocated to old poles, that is a consequence of using average figures to calculate pole attachment rates. To know whether an over recovery was possible, one would have to know whether there are more third party attachments on new poles versus the average pole or old poles. However, this approach would depart drastically from the Commission's existing approach to pole attachment rates using a utility's average figures or industry-wide assumptions concerning averages.[25]

The quantity of maintenance on new poles does not justify a limited remedy to the problem. Like depreciation accounting, the pole attachment figures are based on averages. Singling out new poles is contrary to the concept of averages inherent in the pole attachment formula. The pole attachment rules include presumptions regarding the average height of a pole, the average usable space and the average space used by an attachment. Likewise, costs are based on state-wide average costs of the

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[25] See Amendment of Rules and Policies Governing the Attachment of Cable Television Hardware to Utility Poles, CC Docket No. 86-212, Report and Order, 2 FCC Rcd 4387 passim (1987) ("1987 Report and Order").

utility. It would be inconsistent for the Commission to look at the assumed characteristics of a particular vintage of poles to justify a limited remedy to a problem with the accumulated depreciation account.

If one looks at the average pole, it is quite old for most utilities. Thus, on the average pole, there is no over recovery of maintenance by the utility. Even if a utility could have over recovered in the early life of its average pole plant, it is unlikely that it had many attachments, if any at all, when the average pole was relatively new.[26] Therefore, there were no attachers from whom the utility could have over recovered. The average service life of SWBT's pole plant illustrates this subject, as follows:

	1977	1996
Arkansas	27 years	28
Kansas	27	21
Missouri	30	31
Oklahoma	26	27
Texas	29	23

SWBT's average poles are quite old and have been quite old for some time. Over the last 20 years, one would expect maintenance on the average pole to be similarly high from year to year. Even

[26] The number of attachments increased dramatically in the late '70s and during the '80s. The homes passed by cable operator facilities went from 33% in 1976 to 91% in 1990. As shown in the text, the average age of poles generally has not changed much during those two decades.

assuming *arguendo* that there is some over recovery of maintenance in the case of new poles (of which there are relatively very few being placed in recent years), this is already offset by the under recovery of maintenance on the oldest groups of poles that require the highest expenditure for maintenance.

Given the relatively sporadic distribution of third party attachments over the life of a pole and the likely absence of third party attachments in the early life of virtually all poles, it is not reasonable to assume that there could be an actual over recovery of maintenance on poles when the average pole was new.

A decision to correct the accumulated depreciation only where net pole cost has become negative cannot be justified by unfounded assumptions concerning an isolated category of poles. Such a rationale goes against the use of average figures in calculating pole attachment rates. Of course, if the Commission changes to a gross book method, as recommended by SBC, it is not necessary to decide whether the net salvage adjustment should be applied in all jurisdictions.

III. IT IS REASONABLE TO CONTINUE CALCULATING THE RETURN AND OPERATING TAX ELEMENTS BASED ON UNADJUSTED NET BOOK COST.

The NPRM proposes that the administrative, maintenance, depreciation and operating taxes be calculated using the net pole cost after making the net salvage adjustment to the accumulated depreciation. The NPRM reasons that these expenses should continue "after full recovery of the pole investment has

occurred."[27] Actually, what the NPRM should have said is that these expenses should continue after the net pole cost becomes negative. At that point, as explained above, the utility has not fully recovered its investment. However, ratepayers of the utility's regulated services have supplied depreciation expense that included both recovery of investment and an advance funding of the future cost of removal. In contrast, the NPRM proposes that the return element be computed on the basis of the unadjusted net pole cost. The NPRM reasons as follows:

> Since the full cost of poles will have been recovered at such time that the net balance for poles becomes negative, we do not believe that it would be appropriate to continue to provide pole owners with a return on their investment in poles.[28]

While this reasoning is flawed, SBC agrees that the return element should be calculated based upon the unadjusted net book cost. As explained previously, net pole cost becomes negative long before a utility has fully recovered this original investment in poles. As shown in the example provided by John Lube in Exhibit "A", accumulated depreciation represents recovery of original investment and cost of removal.[29] In the case of poles, the largest portion of the accumulated depreciation is typically the cost of removal. Therefore, when net pole cost becomes negative, the utility has not even recovered half of its

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[27] NPRM, ¶ 26.

[28] Id., ¶ 26.

[29] See Exhibit "A", ¶¶2.04-2.06.